

SECTION 3C



Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 1

CONDITIONAL ENERGY COST ADJUSTMENT

(N)

APPLICABLE

This Conditional Energy Cost Adjustment (CECA) applies to all rate schedules for all classes of service authorized by the South Dakota Public Utilities Commission (Commission).

The CECA shall be calculated annually based on actual system costs for Other Fuel and Purchased Power (OFAPP) for the previous calendar year as compared to the base year OFAPP costs, and shall include an over-or-under recovery from prior years' adjustments through the Balancing Account. Black Hills Power, Inc. (the Company) will update and make a CECA filing with the Commission on an annual basis no later than February 10th.

CONDITIONAL ENERGY COST ADJUSTMENT CALCULATION

- | | | |
|-----|--|---------------|
| 1. | Annual System OFAPP Costs | \$_____ |
| 2. | Annual System Energy Sales | _____ kWh |
| 3. | OFAPP Cost / kWh (Line 1 ÷ Line 2) | \$_____/kWh |
| 4. | Base OFAPP Costs | \$0.00817/kWh |
| 5. | Difference (Line 3 – Line 4) | \$_____/kWh |
| 6. | If Line 5 is greater than 0 then apply Power Marketing Credit, otherwise 0 | \$_____ |
| 7. | Power Marketing Credit/kWh (Line 6 ÷ Line 2) | \$_____/kWh |
| 8. | If Line 5 is less than 0 then apply threshold (\$1,000,000 divided by Line 2), otherwise 0 | \$_____/kWh |
| 9. | Net OFAPP Costs/kWh (Line 5 – Line 7 + Line 8) | \$_____/kWh |
| 10. | Current Year Conditional Energy Cost Adjustment Charge
(If Line 5 and Line 9 are less than 0, enter amount from Line 5,
if Line 5 and Line 9 are greater than 0, enter amount from Line 9,
otherwise enter 0) | \$_____/kWh |
| 11. | Balancing Account (+/-) | \$_____ |
| 12. | Projected South Dakota Retail Energy Sales | _____ kWh |
| 13. | Balancing Account/kWh (+/-)
(Line 11 ÷ Line 12) | \$_____/kWh |
| 14. | Conditional Energy Cost Adjustment
(Line 10 + Line 13) | \$_____/kWh |

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SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 2

CONDITIONAL ENERGY COST ADJUSTMENT

(N)

ANNUAL SYSTEM OTHER FUEL AND PURCHASED POWER (OFAPP) COSTS (Line 1)

Other Fuel and Purchased Power (OFAPP) includes all purchased power, and all fuel consumed for non-steam plant generation, including but not limited to fuel oil and natural gas. The Annual System OFAPP Costs shall be calculated on a calendar year basis using the total of:

- a. Other fuel costs of the Company's generation for items listed in the Federal Energy Regulatory Commission's (FERC) account 547 for Other Power Production; and,
- b. The costs of all energy purchases listed under FERC account 555; and,
- c. Any other costs of fuel consumed to generate electricity not listed in FERC accounts 501 or 547;
- d. Less, the associated other fuel and purchased power expenses for Power Marketing Sales.

ANNUAL SYSTEM ENERGY SALES (Line 2)

Annual System Energy Sales are the total of FERC accounts for Sales of Electricity by Rate Schedules and Sales for Resale, less Power Marketing Sales.

BASE OFAPP COSTS (Line 4)

The Base OFAPP Costs are as approved by the Commission in Docket EL06-019.

POWER MARKETING NET INCOME

The following will be used to determine Power Marketing Net Income realized from Power Marketing Sales:

- a. Power Marketing Sales revenues are defined as short-term sales to wholesale customers.
- b. The Company's long-term customer obligations will be served with the lowest cost resources during each hour that the Company engages in Power Marketing Sales. Any remaining resources may be scheduled for, and if scheduled will be charged to, Power Marketing Sales as the costs of goods sold.
- c. Fifty percent (50%) of the base salary and benefit costs of the Company's generation dispatch and power marketing personnel shall be included as a power marketing expense.
- d. Any transmission expense incurred to facilitate Power Marketing Sales shall be included as an expense.
- e. Bonuses payable to the Company's generation dispatch and power marketing personnel as a result of Power Marketing Sales shall be included as an expense.



Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 3

CONDITIONAL ENERGY COST ADJUSTMENT

(N)

POWER MARKETING NET INCOME - Continued

- g. Any specifically identified expense associated with Power Marketing Sales, such as legal expense or bad debt expense, shall be included as an expense.
- f. The Company's federal income taxes based on the then current maximum marginal tax rate for corporations (currently 35%), plus any other Company taxes or governmental impositions, resulting from the Company's Power Marketing Sales activities, shall be included as an expense.

POWER MARKETING CREDIT (Line 6)

The Power Marketing Credit shall be determined as follows:

If Power Marketing Net Income is less than or equal to \$3,000,000, the Power Marketing Credit will be \$2,000,000.

If Power Marketing Net Income is greater than \$3,000,000 and less than or equal to \$6,000,000, a \$2,000,000 Power Marketing Credit will be applied, plus a Power Marketing Credit of twenty five percent (25%) of Power Marketing Net Income from \$3,000,000 to \$6,000,000.

If Power Marketing Net Income is greater than \$6,000,000, a \$2,750,000 Power Marketing Credit will be applied, plus a Power Marketing Credit of fifty percent (50%) of Power Marketing Net Income greater than \$6,000,000.

THRESHOLD FOR DETERMINING REFUND (Line 8)

If the total decrease in the Annual System OFAPP costs is less than or equal to \$1,000,000, then no refund is extended to customers. If the total decrease in the Annual System OFAPP costs is greater than \$1,000,000, then a refund of the South Dakota share of the total is determined.

BALANCING ACCOUNT (Line 11)

This balance (positive or negative) is the Line 11 amount from the previous filing (Balancing Account) less the actual CECA revenue for the calendar year adjusted for applicable interest. The Balancing Account shall have interest applied or credited monthly at the annual rate of seven percent (7%). The CECA revenue will be applied monthly to the Balancing Account, first to the interest balance, and thereafter to the principal amount.

PROJECTED SOUTH DAKOTA RETAIL ENERGY SALES (Line 12)

These are the kilowatt hours of retail sales projected for the State of South Dakota for the period that the CECA (Line 14) will be in effect.



Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 4

CONDITIONAL ENERGY COST ADJUSTMENT

(N)

CONDITIONAL ENERGY COST ADJUSTMENT (Line 14)

The CECA shall be included in the Company's annual Energy Cost Adjustment and shall be applied to all rate schedules in all classes of service authorized by the Commission.

EFFECTIVE DATE

The CECA shall first be applied to South Dakota retail rate schedules on March 1, 2008, based on calendar year 2007 results, and will continue for twelve (12) months thereafter. The CECA will likewise be updated and filed each year thereafter with the same effective date of application of March 1st.



Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 5

TRANSMISSION COST ADJUSTMENT

(N)

APPLICABLE

This Transmission Cost Adjustment (TCA) applies to all rate schedules for all classes of service authorized by the South Dakota Public Utilities Commission (Commission). The TCA shall be calculated annually based on actual system transmission costs for the previous calendar year as compared to the base year transmission costs, and shall include an over-or-under recovery from prior years' adjustments through the Balancing Account. Black Hills Power, Inc. (the Company) will update and make a TCA filing with the Commission on an annual basis no later than February 10th.

TRANSMISSION COST ADJUSTMENT CALCULATION

- | | | |
|-----|--|---------------|
| 1. | Annual System Transmission Costs | \$_____ |
| 2. | Power Marketing Transmission Costs | \$_____ |
| 3. | Transmission Costs Reimbursed by Others | \$_____ |
| 4. | Net Transmission Costs
(Line 1 – Line 2 – Line 3) | \$_____ |
| 5. | Annual Retail Energy Sales | _____ kWh |
| 6. | Adjusted Transmission Costs (Line 4 ÷ Line 5) | \$_____/kWh |
| 7. | Base Transmission Costs | \$0.00599/kWh |
| 8. | Difference (Line 6 – Line 7) | \$_____/kWh |
| 9. | South Dakota Calendar Year Retail Energy Sales | _____ kWh |
| 10. | Transmission Costs to South Dakota (Line 8 x Line 9) | \$_____ |
| 11. | Balancing Account (+/-) | \$_____ |
| 12. | Balance of Transmission Costs for South Dakota
(Line 10 + Line 11) | \$_____ |
| 13. | For Each Customer Class Calculate the Customer Class Allocation of Total South Dakota Transmission Expense Based Upon Class Allocators in Table 1 – Multiply Each Class Allocator by Line 12 – dollars per class | |
| 14. | Forecast South Dakota Annual Retail Energy Sales by Customer Class in kWhs | |
| 15. | Calculate Customer Class Transmission Cost Adjustment by Dividing the Customer Class Allocated Transmission Expense from Line 13 by the appropriate Forecasted Annual Customer Class Energy Sales from Line 14 | |
| | | \$_____/kWh |

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SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 6

TRANSMISSION COST ADJUSTMENT

(N)

Table 1 – South Dakota Customer Class Capacity Allocation Factors

South Dakota Customer Class	Customer Class Capacity Allocation Factor
Residential	34.00%
General Service Small	34.33%
Lighting Service	0.96%
General Service Large	20.74%
Industrial Contract	9.97%

TRANSMISSION SERVICES

The TCA shall recover the charges under the Company's Common Use System Open Access Transmission Tariff approved by the Federal Energy Regulatory Commission (FERC). The TCA may also include allowed charges billed to the Company by any other transmission provider.

Transmissions Services shall include all Network Integrated Transmission Service, all Point-to-Point Transmission Service, including all associated ancillary service charges, and regulation expenses, required to support the Company's system energy sales.

ANNUAL SYSTEM TRANSMISSION COSTS (Line 1)

The Annual System Transmission Costs are the total Company calendar year costs for Transmission Services.

POWER MARKETING TRANSMISSION COSTS (Line 2)

Power Marketing Sales are defined as short-term sales to wholesale customers. The Power Marketing Transmission Costs are those transmission costs incurred in facilitating Power Marketing Sales.

TRANSMISSION COSTS REIMBURSED BY OTHERS (Line 3)

These are the transmission costs of the Company that are reimbursed by others.

ANNUAL RETAIL ENERGY SALES (Line 5)

Annual Retail Energy Sales are the total of FERC accounts for Sales of Electricity by Rate Schedules.

BASE TRANSMISSION COSTS (Line 7)

The Base Transmission Costs are as approved by the Commission in Docket EL06-019.

SOUTH DAKOTA CALENDAR YEAR RETAIL ENERGY SALES (Line 9)

The South Dakota Calendar Year Retail Energy Sales are the total South Dakota retail energy sales for all classes of service authorized by the Commission.



Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 7

TRANSMISSION COST ADJUSTMENT

(N)

BALANCING ACCOUNT (Line 11)

This balance (positive or negative) is the Line 12 amount from the previous filing (Balance of Transmission Costs for South Dakota) less the actual TCA revenue for the calendar year as adjusted for applicable interest. The Balancing Account shall have interest applied or credited monthly at the annual rate of seven percent (7%). The TCA revenue will be applied monthly to the Balancing Account, first to the interest balance, and thereafter to the principal amount.

BALANCE OF TRANSMISSION COSTS FOR SOUTH DAKOTA (Line 12)

This is the total Dollar amount to be collected from or reimbursed to South Dakota retail customers.

CUSTOMER CLASS CAPACITY ALLOCATION OF TRANSMISSION EXPENSE (Line 13)

This is the total South Dakota transmission expense multiplied by each of the customer class capacity allocators to determine the allocated share of the transmission costs (Line 12) for each customer class.

FORECAST SOUTH DAKOTA ANNUAL RETAIL ENERGY SALES BY CUSTOMER CLASS (Line 14)

These are the kilowatt hours of South Dakota retail sales projected by customer class for the period that the TCA (Line 15) will be in effect.

TRANSMISSION COST ADJUSTMENT (Line 15)

The TCA shall be included in the Company's annual Energy Cost Adjustment and shall be applied to all rate schedules in all classes of service authorized by the Commission. Each customer class TCA is calculated by dividing the customer class allocated expense (Line 13) by the forecast kilowatt hours of retail sales for each customer class (Line 14).

SOUTH DAKOTA CUSTOMER CLASS CAPACITY ALLOCATION FACTORS (Table 1)

The South Dakota Customer Class Capacity Allocation Factors in Table 1 are as approved by the Commission in Docket Number EL06-019.

EFFECTIVE DATE

The TCA shall first be applied to South Dakota retail rate schedules on March 1, 2008, based on calendar year 2007 results, and will continue for twelve (12) months thereafter. The TCA will likewise be updated and filed each year thereafter with the same effective date of application of March 1st.



Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 8

STEAM PLANT FUEL COST ADJUSTMENT

(N)

APPLICABLE

This Steam Plant Fuel Cost Adjustment (SPFCA) applies to all rate schedules for all classes of service authorized by the South Dakota Public Utilities Commission (Commission). The SPFCA shall recover the fuel costs associated with the steam plant generation resources of Black Hills Power, Inc. (the Company) used to serve retail customers.

The SPFCA shall be calculated annually based on actual system steam plant fuel costs for the previous calendar year as compared to the base year steam plant fuel costs, and shall include an over-or-under recovery from prior years' adjustments through the Balancing Account. The Company will update and make a SPFCA filing with the Commission on an annual basis no later than February 10th.

STEAM PLANT FUEL COST ADJUSTMENT CALCULATION

1.	Annual System Steam Plant Fuel Costs	\$ _____
2.	Power Marketing Steam Plant Fuel Costs	\$ _____
3.	Net Steam Plant Fuel Costs (Line 1 – Line 2)	\$ _____
4.	Annual System Energy Sales	_____ kWh
5.	Adjusted Steam Plant Fuel Costs (Line 3 ÷ Line 4)	\$ _____/kWh
6.	Base Steam Plant Fuel Costs	\$0.00630/kWh
7.	Difference (Line 5 – Line 6)	\$ _____/kWh
8.	South Dakota Calendar Year Retail Energy Sales	_____ kWh
9.	Steam Plant Fuel Costs to South Dakota (Line 7 x Line 8)	\$ _____
10.	Balancing Account (+/-)	\$ _____
11.	Balance of Steam Plant Fuel Costs for South Dakota (Line 9 + Line 10)	\$ _____
12.	Projected South Dakota Retail Energy Sales	_____ kWh
13.	Steam Plant Fuel Cost Adjustment (Line 11 ÷ Line 12)	\$ _____/kWh

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Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 9

STEAM PLANT FUEL COST ADJUSTMENT

(N)

ANNUAL SYSTEM STEAM PLANT FUEL COSTS (Line 1)

The Annual System Steam Plant Fuel Costs are the total Company calendar year costs for steam fuel as stated in the Federal Regulatory Commission's (FERC) Account 501. The base price for coal, included in this cost, is determined in accordance with the methodology set forth in the Statement R of the Company's 2005 rate application Docket Number EL06-019.

POWER MARKETING STEAM PLANT FUEL COSTS (Line 2)

Power Marketing Sales are defined as short-term sales to wholesale customers. The Power Marketing Steam Plant Fuel Costs are those steam plant fuel costs incurred in facilitating Power Marketing Sales. The Company's long-term customer obligations will be served with the lowest cost resources. Any remaining resources may be scheduled for, and if scheduled will be charged to, Power Marketing Sales as the costs of goods sold.

ANNUAL SYSTEM ENERGY SALES (Line 4)

Annual System Energy Sales are the total of FERC accounts for Sales of Electricity by Rate Schedules and Sales for Resale, less Power Marketing Sales.

BASE STEAM PLANT FUEL COSTS (Line 6)

The Base Steam Plant Fuel Costs are as approved by the Commission in Docket Number EL06-019.

SOUTH DAKOTA CALENDAR YEAR RETAIL ENERGY SALES (Line 8)

The South Dakota Calendar Year Retail Energy Sales are the total South Dakota retail energy sales for all classes of service authorized by the Commission.

BALANCING ACCOUNT (Line 10)

This balance (positive or negative) is the Line 11 amount from the previous filing (Balance of Steam Plant Fuel Costs for South Dakota) less the actual SPFCA revenue for the calendar year adjusted for applicable interest. The Balancing Account shall have interest applied or credited monthly at the annual rate of seven percent (7%). The SPFCA revenue will be applied monthly to the Balancing Account, first to the interest balance, and thereafter to the principal amount.

BALANCE OF STEAM PLANT FUEL COSTS FOR SOUTH DAKOTA (Line 11)

This is the total dollar amount to be collected from or reimbursed to South Dakota retail customers.

PROJECTED SOUTH DAKOTA RETAIL ENERGY SALES (Line 12)

These are the kilowatt hours of retail sales projected for the South Dakota retail energy sales for the period that the SPFCA (Line 13) will be in effect.



Black Hills Power, Inc.
Rapid City, South Dakota

SOUTH DAKOTA ELECTRIC RATE BOOK

Section No. 3C
Original Sheet No. 10

STEAM PLANT FUEL COST ADJUSTMENT

(N)

STEAM PLANT FUEL COST ADJUSTMENT (Line 13)

The SPFCA shall be included in the Company's annual Energy Cost Adjustment and shall be applied to all rate schedules in all classes of service authorized by the Commission.

EFFECTIVE DATE

The SPFCA shall first be applied to South Dakota retail rate schedules on March 1, 2008, based on calendar year 2007 results, and will continue for twelve (12) months thereafter. The SPFCA will likewise be updated and filed each year thereafter with the same effective date of application of March 1st.